

MARKET CONDUCT EXAMINATION
OF
GREAT REPUBLIC LIFE INSURANCE
COMPANY

1900 WEST NICKERSON, SUITE 200
SEATTLE, WA 98119-1650

January 1, 2000 – July 31, 2001



TABLE OF CONTENTS

Section	Page
Table of Contents	2
Salutation	3
Chief Examiner's Report Certification & Acknowledgements	4
Foreword	5
History and Operations	7
Advertising	8
Complaints	9
Inforce Policies and Underwriting	10
Claims	11
Instructions and Recommendations	12
Summary of Standards	13
Appendices	15

November 5, 2001

The Honorable Mike Kreidler
Washington State Insurance Commissioner
Insurance Building
P.O. Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed of:

Great Republic Life Insurance Company, NAIC #67482
1900 West Nickerson Street, Suite 200
Seattle, WA 98119-1650

This report of examination is respectfully submitted.

This was a limited scope examination of the companies' activities between January 1, 2000 and July 31, 2001.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Nancy L. Barnes, AIE, ACS and George J. Lazur, AIE, CPCU of the Washington State Office of Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of Great Republic Life Insurance Company during the course of this market conduct examination.

I certify that the following is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This market conduct examination report is by exception and additional practices, procedures, and files subject to review during the examination were omitted from the report if no improprieties were indicated. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

Scope

Time Frame

The examination covered the company's operations from January 1, 2000 through July 31, 2001. This was the second market conduct examination of Great Republic Life Insurance Company and was performed in the OIC's Seattle office and on-site at the company's home office in Seattle, Washington.

Matters Examined

The examination included a review of the following areas:

Advertising	Complaints
Underwriting	Claims

Sampling Standards

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92 %	Confidence Level
+/- 5 %	Mathematical Tolerance.

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the OIC. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as "met." The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. **The standard in the area of inforce policies and underwriting will**

not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards, which look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

COMPANY OPERATIONS AND MANAGEMENT

Great Republic Life (GRL) was incorporated on July 14, 1965. The Company was admitted as a Life and Disability carrier in Washington State on May 4, 1966. GRL was originally incorporated as Pacific Reserve Life Insurance Company, with the present company name being adopted in 1968. The Company is a wholly owned subsidiary of Empire Insurance Agency, which serves as a holding company. Both companies are controlled and operated by the Pritchett family. The Company specializes in writing individual nursing home care and home health care insurance. Approximately 85% of the Company's total net premiums are derived from these products.

The Company operates from its offices located at 1900 West Nickerson Street, Suite 200, Seattle, Washington. All facets of company operations are conducted at this location.

A six (6) member Board of Directors governs the management and control of the Company. Board members are elected to one-year terms. Elections are held at the annual shareholder meeting each May. No limit exists on the number of terms a Director may serve. The current Board of Directors has been in place for five (5) years, and the members are:

Patricia D. Pritchett
James W. Pritchett
Jeannie Matthews

Kyle G. Ewing
Constance Taylor

The principal officers of GRL are:

Patricia D. Pritchett, President
Phillip H. Pritchett, Treasurer
Kyle G. Ewing, Secretary

Territory of Operations

Great Republic Life's business activities are concentrated in the State of Washington. The Company is licensed to conduct business in five (5) other states: Alaska, Idaho, Nevada, Oregon, and Utah. Its Certificate of Authority is currently suspended in Arizona. The examiners found no evidence of the Company operating outside of the above mentioned states.

Findings

The Company passed the following Operations/Management Standards without comment:

Standard	Reference
<u>Operations/Management Standard #1</u> : The Company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurer.	RCW 48.05.030

Standard	Reference
<u>Operations/Management Standard #2:</u> The Company is required to report to the OIC any changes to the registration documents, including Articles of Incorporation, Bylaws, and Amendments.	RCW 48.07.070

ADVERTISING

Great Republic Life provided only one (1) piece of advertising with its initial response. After discussions with the Company, followed up by letter, the examiners received four (4) additional pieces. In addition to the total of five (5) advertising pieces provided, the examiners also reviewed the Company's website.

It is evident that GRL is not maintaining any type of advertising file. A log should be maintained listing the advertisement, form number, and target audience.

The Company passed the following Advertising Standard without comment:

Standard	Reference
<u>Advertising Standard #2:</u> The Company shall not demonstrate a frequency of misrepresentation of pertinent facts or insurance contract provisions.	WAC 284-54-800(1)

The following exceptions were noted:

Advertising Standard #1: The Company's advertising materials are published and maintained in accordance with all Washington Advertising Regulations. Reference: RCW 48.30.040 through RCW 48.30.090, WAC 284-50-010 through WAC 284-50-230, WAC 284-54-030. See Appendix I.

Findings: Passed with comment.

- One (1) advertisement violates WAC 284-50-060(4) that states advertisements may not include deceptive words, phrases, or illustrations. The advertisement states that there is a "Pool of Money" available. In addition to this phrase, calculations of the total available benefit are included. This phrase, along with the calculations, has the capacity to mislead the public into believing that the entire sum is immediately available if the insured has qualified for benefits. The examiners recommend that this advertisement be changed so that there is no potential for misunderstanding concerning the amount and availability of benefits.
- One (1) advertisement cites an endorsement by *Consumer Reports*. It states that GRL's policies are rated among the best in the industry. Nothing in the advertisement substantiates this claim. This advertisement violates WAC 284-50-100. The examiners recommend that future endorsements be disclosed in the Company's advertising materials.

- Four (4) advertisements violate RCW 48.30.090 that states that the advertising materials may not misrepresent pertinent facts of contract provisions. These advertisements state that an insured must be examined or interviewed by certified Physicians or Psychologists, with expertise in the type of disorder or incapacity believed to exist, in order to qualify for benefits. WAC 284-54-040(1)(a) states that the insured's attending physician may do this certification. During the Inforce Policies and Underwriting review, the examiners found no evidence that the Company was requiring insureds to submit the specialty certification. Certification of benefit qualification from the insured's attending physician was acceptable. The examiners recommend that the restrictive language currently in use be replaced to accurately reflect the certification requirements for benefit qualification.
- The Company does not maintain a formal advertising file as required by WAC 284-50-200. When asked, Company personnel were able to provide the materials promptly. The examiners recommend that the Company maintain an advertising log in order to bring its advertising file into compliance.

COMPLAINTS

During the examination period, 16 complaints were received. Twelve (12) complaints were from 2000, and four (4) complaints were through July 31, 2001. Two (2) of these complaints were from Arizona residents involving Arizona contracts. These were removed from the population, leaving 14 files that were reviewed. The Company complaint logs were compared to OIC records, with no discrepancies noted.

The 14 complaints and their dispositions are as follows:

Type	Number	Overtured	Upheld
Rates	6	0	6
Benefit Denial	7	0	7
Benefit Question	3	1	2
Total	16*	1 (6.25%)	15 (93.75%)

*Two (2) complaints had multiple reasons.

The examiners also reviewed the time lag between receipt of the complaint from the OIC and the Company's response. Using the Market Conduct Statistical Utilities program, the examiners determined that the average response time was eight (8) working days.

The Company passed the following Complaint Standards without comment:

Standard	Reference
<u>Complaint Standard #1:</u> The Company shall not demonstrate a frequency of not acknowledging and promptly acting upon communications arising under insurance policies or contracts.	WAC 284-54-800(2)

Standard	Reference
<u>Complaint Standard #2:</u> The Company will respond to communications from the OIC within 15 working days with the substantial information requested.	WAC 284-30-650, WAC 284-54-800(15), Technical Advisory T 98-4

INFORCE POLICIES AND UNDERWRITING

Great Republic Life offers three plans:

- Integrated Plan (Nursing Home and Home Health Care)
- Nursing Home Care Only
- Home Health Care Only

The Company provided the examiners with its policy forms, applications, and underwriting guidelines that are currently in use. GRL also provided the rates that are currently in use. The examiners reviewed all of the materials and found no discrepancies with those items previously filed with and approved by the OIC.

The examiners selected a random sample of 50 files for review using ACL Audit Software. This same sample was also used in the Claims section review. Eight (8) of the 50 files selected were for policies written in other states (Oregon, Arizona, Nevada). These eight (8) files were removed from the sample, leaving a total of 42 files that were reviewed.

The examiners found the underwriting portion of each file to be thorough and complete. No evidence of discrimination or any unfair practices used in the underwriting of the policies was identified.

The Company passed the following Rate and Form Filing Standards without comment:

Standard	Reference
<u>Rate and Form Filing Standard #1:</u> All contract forms have been filed and approved by the Office of Insurance Commissioner prior to use.	RCW 48.18.100
<u>Rate and Form Filing Standard #2:</u> All contract rates have been filed with the Office of Insurance Commissioner prior to use.	RCW 48.19.010(2)

Inforce Policies and Underwriting Standard #1: All policies shall conform to prescribed standards, rules, and provisions. Reference: RCW 48.84, WAC 284-54-010 through WAC 284-54-500.

Findings: Failed. 97.6% compliance (0 tolerance).

In one (1) application, the applicant did not complete the health questions as required by RCW 48.84.060(1). It was evident to the examiners that the agent that took the application completed the health questions. The application was for policy number 20700593.

CLAIMS

Procedures and Processes

The Company provided a copy of its claims settlement procedures manual. The manual is divided into two (2) sections—one (1) for long term care claims and one (1) for home health care claims. The manual contains all of the necessary forms and sample letters that are used in the claims process. The examiners found the manual to be complete and easy to understand.

Claim Review

Great Republic Life had 209 open claims during the examination period. As described in the Inforce Policies and Underwriting section of the report, the examiners selected a random sample of 50 claim files for review. Eight (8) of the claims were against policies that were written in other states (Oregon, Nevada, Arizona). The remaining 42 files were reviewed to assure that the Company:

- Does not participate in unfair claims settlement practices.
- Maintains complete claim files, including all notes and workpapers pertaining to the claim.
- Does not misrepresent any policy provisions in the handling of claims.
- Acknowledges receipt of a claim within ten (10) working days by providing necessary forms and instructions.
- Completes investigation of claims within 30 days of notification.
- Accepts or denies claims within 15 days of receipt of all materials substantiating the claims.
- Does not use unfair or deceptive acts in its claims settlement procedures.

The examiners did not note any errors or violations during the review of the 42 randomly selected files. The files were complete and very detailed, outlining all conversations and correspondence occurring during the history of the claim. There were 23 closed claims in the sample (55%), and there were 19 open claims in the sample (45%).

The Company passed the following Claims Standard without comment:

Standard	Reference
<u>Claim Standard #1:</u> The Company shall not engage in or demonstrate a frequency of using unfair claims settlement practices.	WAC 284-30-330, WAC 284-54- 800(3)-(14) and WAC 284-54- 800(16)-(17)

INSTRUCTIONS AND RECOMMENDATIONS

Instructions

	Instructions	PAGE #
1	The Company is instructed to assure all health questions on an application are completed by the applicant as required by RCW 48.84.060(1).	10

Recommendations

	Recommendations	PAGE #
1	It is recommended that the Company publish and maintain its advertising materials in accordance with Washington Advertising Regulations. Reference: RCW 48.30.040 through RCW 48.30.090, WAC 284-50-010 through WAC 284-50-230, and WAC 284-54-030.	8

**GREAT REPUBLIC LIFE
SUMMARY OF STANDARDS
MARKET CONDUCT EXAMINATION
JANUARY 1, 2000 TO JULY 31, 2001**

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurer. (RCW 48.05.030)	7	X	
2	The Company is required to report to the OIC any changes to the registration documents, including Articles of Incorporation, Bylaws, and Amendments. (RCW 48.07.070)	8	X	

Advertising:

#	STANDARD	PAGE	PASS	FAIL
1	The Company's advertising materials are published and maintained in accordance with all Washington Advertising Regulations. (RCW 48.30.040 through RCW 48.30.090, WAC 284-50-010 through WAC 284-50-230, WAC 284-54-030)	8	X	
2	The Company shall not demonstrate a frequency of misrepresentation of pertinent facts or insurance contract provisions. (WAC 284-54-800(1))	8	X	

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	The Company shall not demonstrate a frequency of not acknowledging and promptly acting upon communications arising under insurance policies or contracts (WAC 284-54-800(2))	9	X	
2	The Company will respond to communications from the OIC within 15 working days with the substantial information requested. (WAC 284-30-650, WAC 284-54-800(15), Technical Advisory T 98-4)	10	X	

Rate and Form Filing:

#	STANDARD	PAGE	PASS	FAIL
1	All contract forms have been filed and approved by the Office of Insurance Commissioner prior to use. (RCW 48.18.100)	10	X	
2	All contract rates have been filed with the Office of Insurance Commissioner prior to use. (RCW 48.19.010(2))	10	X	

Inforce Policies and Underwriting:

#	STANDARD	PAGE	PASS	FAIL
1	All policies shall conform to prescribed standards, rules, and provisions. (Chapter 48.84 RCW, WAC 284-54-010 through WAC 284-54-500)	10		X

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The Company shall not engage in or demonstrate a frequency of using unfair claims settlement practices. (WAC 284-30-330, WAC 284-54-800(3)-(14) and WAC 284-54-800(16)-(17))	11	X	

APPENDIX I

The Company's advertising materials are published and maintained in accordance with all Washington Advertising Regulations.

RCW 48.30.040 through RCW 48.30.090, WAC 284-50-010 through WAC 284-50-230, WAC 284-54-030

Violation of Statute/Code	Advertisement
WAC 284-50-060(4)	Perennial G7 (MR-IND-301-97)
WAC 284-50-100	Right at Home – Home Health Care – Insurance Protection (MR-HHC-225-01)
RCW 48.30.090	Perennial G7 (MR-IND-301-97)
RCW 48.30.090	The Perennial Plan – Long Term Care Insurance (MR-LTC-300-98 WA)
RCW 48.30.090	The Alternative – Home Health Care (MR-HHC-300-98 WA)
RCW 48.30.090	Right at Home – Home Health Care – Insurance Protection (MR-HHC-225-01)